



Earned Value Management Update

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Agenda

- Background
- Revised Earned Value Management (EVM) Policy
- Government/Industry EVM Working Group



Background

- Industry concerns communicated in letter to USD(AT&L) (April 2003)
- DoD concerns discussed at executive-level meeting (July 2003)
- Concerns presented to Defense Acquisition Excellence Council (DAEC) (October 2003)
 - Action resulted to establish teams to work the issues and provide periodic status to DAEC
- Actions to date:
 - Established Government/Industry EVM Working Group (first meeting – July 2004)
 - Presented proposed EVM policy changes to DAEC (November 2004)
 - Released approved revised EVM policy (March 2005)



Revised EVM Policy: Summary of Changes

- New dollar thresholds for cost/incentive contracts (no differentiation between development and procurement)
- Revised Cost Performance Report (CPR) data item description - renamed "Contract" Performance Report
- Eliminated Cost/Schedule Status Report (C/SSR)
- Expanded application of Integrated Master Schedule (IMS) and linked to CPR
- Clarified requirement for Integrated Baseline Reviews (IBRs) (required when EVM required)

Changes not retroactive but are effective now on new cost/incentive contracts



Revised EVM Policy: New Application Thresholds

Contracts Thresholds

Requirements

Cost or Incentive Equal to or Above Threshold	$\geq \$50M$	<ul style="list-style-type: none">- Compliance with industry EVM standard- <u>Formal EVM system validation</u>- Contract Performance Report- Integrated Master Schedule- Integrated Baseline Reviews- Ongoing surveillance
Cost or Incentive Less Than Upper Threshold but Equal to or Above Lower Threshold	$< \$50M$ but $\geq \$20M$	<ul style="list-style-type: none">- Compliance with industry EVM standard- <u>No</u> formal EVM system validation- Contract Performance Report (tailored)- Integrated Master Schedule (tailored)- Integrated Baseline Reviews- Ongoing surveillance
Cost or Incentive Less Than Threshold	$< \$20M$	<ul style="list-style-type: none">- EVM optional (risk-based decision)- Cost-benefit analysis required



Revised EVM Policy: Status Overview

➤ Much activity has been completed...

- Released policy changes for government and industry comment
- Adjudicated comments; modified policy documents accordingly
- Conducted business case analysis
- Formally coordinated policy changes within DoD
- Obtained USD(AT&L) approval of revised policy
- Issued interim policy memorandum (March 7, 2005)
- Published approved data item descriptions (CPR and IMS) and revised CPR forms (March 30, 2005)
- Published new DoD Earned Value Management Implementation Guide (EVMIG) (April 7, 2005)

➤ Some actions are in the works...

- Revising DoD Instruction 5000.2 (Fall 2005)
- Revising Defense Acquisition Guidebook (July 2005)
- Updating Work Breakdown Structure (WBS) Handbook (July 2005)
- Completing DoD EVMIG (April 2006)

Another update of the DoD EVMIG is planned for release by October 2005



Government/Industry EVM Working Group

- Established at request of DAEC
- Working-level forum to “assess EVM and broader program management issues and concerns by sharing improvement ideas and recommending solutions, capitalizing on existing industry practices”
- Membership includes representatives from OSD, military services, defense and intelligence agencies, National Defense Industrial Association, and large defense contractors (plan to add small business representative)
- Five meetings held during past year
 - Collaborated on policy changes
 - Developed plan to address major DoD and industry issues
 - Working on policy implementation issues and other activities, to include NDIA ANSI Intent Guide

Standing body that will continue to meet and dialogue on the issues



Government/Industry EVM Working Group

- Major Issues Identified by Government/Industry EVM Working Group
 1. Policy, Validation, and Surveillance
 2. Contract Requirements
 3. Training
 4. Contract Definitization
 5. Management Acceptance
 6. Process Integrity
 7. Subcontractor Management
- Working Group developed plan defining issues and strategies for implementing corrective actions
 - Revisions to EVM policy respond to Issues 1 and 2
 - Much progress has been made on Issue 3—will have ancillary benefits in other areas
 - Research underway on Issues 4 and 5
 - Issues 6 and 7 will be worked in future
 - NDIA Program Management Systems Committee teams actively working related initiatives



Closing Thoughts

- OSD continues to make EVM a priority and plans to stay actively engaged
- Government/Industry EVM Working Group will continue to work issues, share improvement ideas, and recommend and implement solutions
- Goal = to ensure performance management processes are effective, consistent, and reflective of industry best practices



Working together is the key to success!

A large, faded image of an eagle in flight serves as the background for the central text. The eagle is shown from the side, with its wings fully extended, flying towards the right. The image is semi-transparent, allowing the text to be clearly visible over it.

Back-Up Slides



Industry and DoD Concerns

➤ Industry Concerns

- Erosion of avenues of communication and problem resolution
- Conflicting contractual requirements
- Duplicative management systems reviews
- Unique system surveillance oversight activities
- Proliferation of independent approaches
- Declining government experience and resources

➤ DoD Concerns

- Diverse implementation of EVM among and within companies
- Maturity of industry infrastructure to support "ownership" of EVM
- Lack of institutionalization of EVM as an integral program management tool
- Varying levels of confidence in reported data
- DoD program managers taking actions in response to industry's maturity issues



Previous EVM Policy

- DoD Instruction 5000.2, Operation of the Defense Acquisition System, May 12, 2003 – EVM is a Regulatory Information Requirement (Enclosure 3, Table E3.T2)
 - Requirements
 - Implement EVM guidelines in ANSI/EIA-748 on contracts/agreements over designated dollar thresholds (RDT&E – \$73M, Procurement – \$315M)
 - Conduct Integrated Baseline Reviews
 - Policy changes have been submitted for incorporation into update currently in progress
- Defense Acquisition Guidebook, October 17, 2004 (replaced DoD Regulation 5000.2-R)
 - Contains “how to” guidance for previous policy (old thresholds, Cost/Schedule Status Report, etc.)
 - Revising EVM contents in Chapter 11 to reflect revised policy
 - Will include supporting guidance (expectations, exclusions, etc.)



Revised EVM Policy: Business Case Analysis

- Used contracts data supplied by DoD and industry; applied proposed new EVM application thresholds
 - Increase in lower threshold from \$6.3M to \$20M results in decrease in number of contracts requiring EVM (DoD data = 2,156; industry data = 1,297)
 - Decrease in upper threshold from \$315M/\$73M to \$50M results in increase in number of contracts requiring a CPR and validated EVM system (DoD data = 535; industry data = 261)
- Used incremental cost algorithm to establish equivalency between difference in level of effort for CPR, Tailored CPR (replacement for C/SSR), and C/SSR (C/SSR = 0.33 CPR; TCPR = 1.1 C/SSR)
 - DoD data - eliminate CPRs on 326 contracts
 - Industry data - eliminate CPRs on 235 contracts
- Conclusion
 - Policy changes will result in relatively significant cost avoidance; cost of eliminating C/SSRs more than offsets cost of additional CPRs
 - Few, if any, additional system validations will be required under the revised policy



Revised EVM Policy: Tailoring Reporting

- Guidance for tailoring CPR and IMS for cost or incentive contracts $< \$50\text{M}$ but $\geq \$20\text{M}$
- Considerations when making a risk-based decision to require EVM on cost or incentive contracts $< \$20\text{M}$; guidance for tailoring reporting (program manager approval required)
- Factors to consider if applying EVM on a FFP contract and guidance for tailoring reporting (MDA approval required)

Guidance resides in DoD EVMIG



Government/Industry EVM Collaboration Framework

